

**State of California**

**Department of Water Resources**

**Proposed Determination of Revenue Requirement**

**For the Period**

**January 1, 2019 through December 31, 2019**

**Transmitted To**

**The California Public Utilities Commission**

**Pursuant To**

**Sections 80110 and 80134 of the California Water Code**



**July 5, 2018**

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## **A. THE DETERMINATION**

### **GENERAL**

Pursuant to Section 80110 of the California Water Code, the Department hereby issues its Proposed Determination of Revenue Requirement for the period of January 1, 2019 through December 31, 2019 (“2019 Determination” or “Determination” in accordance with the Rate Agreement between the State of California Department of Water Resources (“Department” or “DWR”) and the California Public Utilities Commission (“Commission” or “CPUC”), dated March 8, 2002 (“Rate Agreement”), and Division 23, Chapter 4, Sections 510–517 of the California Code of Regulations (“Regulations”). Capitalized terms used and not otherwise defined herein have the meanings given to such terms in the Rate Agreement or the Indenture under which the Department’s Power Supply Revenue Bonds were issued (the “Bond Indenture”).

The costs of the Department’s purchases to meet the net short requirements of retail end use customers in the three California investor-owned utilities’ (“Utilities” or “IOUs”) service territories, including the costs of administering the long-term contracts, are to be recovered from payments made by customers and collected by the IOUs on behalf of the Department. The terms and conditions for the recovery of the Department’s costs from customers are set forth in the California Water Code (“Act”), the Regulations, the Rate Agreement and orders of the Commission. Among other things, the Rate Agreement defines a “Bond Charge” designed to recover the Department’s costs associated with its bond financing activity (“Bond Related Costs”) and a “Power Charge” designed to recover “Department Costs”, or the Department’s “Retail Revenue Requirement” including power supply-related costs. Subject to the conditions described in the Rate Agreement and other Commission Decisions, Bond Charges and certain charges designed to recover Department Costs may also be imposed on the customers of Electric Service Providers (as that term is defined in the Rate Agreement).<sup>1</sup> Additional background material is contained in the Department’s prior Determinations of Revenue Requirement, copies of which have been incorporated into the administrative record supporting this Determination.

Pursuant to Sections 80110 and 80134 of the California Water Code and the Rate Agreement, this Determination contains information on the amounts required to be recovered, on a cash basis, in the 2019 Revenue Requirement Period (calendar year 2019).

For the 2019 Revenue Requirement Period, this Proposed Determination contains information regarding: (a) the beginning balance of funds on deposit in the Electric Power Fund (“Fund”), including the amounts on deposit in each account and sub-account of the Fund; (b) the amounts projected to be necessary to pay the principal and interest on all bonds as well as all other Bond Related Costs as and when the same are projected to become due, and the projected amount of Bond Charges required to be collected for such purpose; and (c) the amount needed to pay the Department’s costs, including all Retail Revenue Requirements.

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<sup>1</sup> Under the Rate Agreement, the “Retail Revenue Requirement” is the amount to be recovered from “Power Charges” on customers in the IOU service areas. The assessment on customers of Electric Service Providers of charges to recover Department Costs (e.g., “Direct Access Power Charge Revenues”) reduces the amount of the “Retail Revenue Requirement,” but has no material impact on the Department’s costs.

## **DETERMINATION OF REVENUE REQUIREMENT**

Pursuant to the Act, the Rate Agreement, and the Regulations, the Department determines, based on the materials presented and referred to by this Proposed 2019 Determination (including the materials referenced in Section H), that it has adequate amounts in its Power Charge Accounts at all times to pay all Department costs, including all Retail Revenue Requirements

As required by the Act, the Rate Agreement, and the Regulations, the Department makes a separate revenue requirement determination for the Bond Charge Accounts. For 2019, the Department determines that its cash basis Bond Charge Account revenue requirement is \$812 million.

This 2019 Determination considers preliminary actual operating results through May 31, 2018. It also considers the response from the IOUs to the Department's request for information pertaining to modeling assumptions and electric loads. During the 2019 Revenue Requirement period, the Department projects that virtually all of the revenues it receives will be Bond Charge Revenues that will flow through the Bond Charge Accounts, except for amounts, if any, yet to be received by DWR from legal claims related to power purchases by DWR under the Power Supply Program. For this Determination, the Department has determined that approximately \$11 million in the Operating Account are Excess Amounts. The Department will consult with the CPUC to return such funds to benefit the ratepayers in the IOU service areas. The Department is not projecting to receive any Power Charge revenue, nor any cost associated with the power purchase contracts and projects to maintain approximately \$24 million in the Power Charge Accounts to account for any contingent liabilities associated with the power purchase contracts and to pay certain expenses through the end of the Power Supply Program. Table A-1 shows a summary of the Department's revenue requirement and the accounts associated with projected Department Costs ("Power Charge Accounts") for 2019. These figures are compared to those reflected in the Department's 2018 Determination of Revenue Requirements. A summary and comparison of the Department's revenue requirement and the accounts associated with its Bond Related Costs ("Bond Charge Accounts") is presented in Table A-2. Definitions of key accounts and sub-accounts are presented within this revenue requirement.

**TABLE A-1**  
**SUMMARY OF THE DEPARTMENT'S 2019 POWER CHARGE REVENUE**  
**REQUIREMENT AND POWER CHARGE ACCOUNTS**  
**AND COMPARISON TO 2018<sup>1</sup>**  
**(\$ Millions)**

Line	Description	2019 <sup>2</sup>	2018 <sup>3</sup>	Difference
1	<i>Beginning Balance in Power Charge Accounts</i>			
2	Operating Accounts	37	22	15
3	Operating Reserve Account	-	-	-
4	<b>Total Beginning Balance in Power Charge Accounts</b>	<b>37</b>	<b>22</b>	<b>15</b>
5	<i>Power Charge Accounts Operating Revenues</i>			
6	Power Charge Revenues <sup>4</sup>	-	-	-
7	Return of Excess Amounts to Customers <sup>5</sup>	(11)	-	(11)
8	Interest Earnings on Fund Balances	0.5	0.3	0.2
9	<b>Total Power Charge Accounts Operating Revenues</b>	<b>(10)</b>	<b>0.3</b>	<b>(10)</b>
10	<i>Power Charge Accounts Operating Expenses</i>			
11	Operating Expenses	3	3	-
12	Total Power Costs	-	-	-
13	<b>Total Power Charge Accounts Operating Expenses</b>	<b>3</b>	<b>3</b>	<b>-</b>
14	Net Operating Revenues	(13)	(2.7)	(10)
15	<b>Ending Aggregate Balance in Power Charge Accounts</b>	<b>24</b>	<b>19</b>	<b>4</b>

<sup>1</sup>Numbers may not add due to rounding.

<sup>2</sup>As included herein.

<sup>3</sup>As reflected in the 2018 Determination.

<sup>4</sup>Includes Bundled Customer revenues and Cost Responsibility Surcharge revenues.

<sup>5</sup>Comprised of surplus reserves meeting the definition of Excess Amounts within the Bond Indenture.

**TABLE A-2**  
**SUMMARY OF THE DEPARTMENT'S 2019 BOND CHARGE REVENUE**  
**REQUIREMENT AND BOND CHARGE ACCOUNTS**  
**AND COMPARISON TO 2018<sup>1</sup>**  
**(\$ Millions)**

Line	Description	2019 <sup>2</sup>	2018 <sup>3</sup>	Difference
1	<i>Beginning Balance in Bond Charge Accounts</i>			
2	Bond Charge Collection Account	268	208	60
3	Bond Charge Payment Account	749	731	18
4	Debt Service Reserve Account	882	882	(0)
5	<b>Total Beginning Balance in Bond Charge Accounts</b>	<b>1,900</b>	<b>1,822</b>	<b>78</b>
6	<i>Bond Charge Accounts Revenues</i>			
7	Bond Charge Revenues from Utilities <sup>4</sup>	812	892	(80)
8	Interest Earnings on Fund Balances	37	27	10
9	<b>Total Bond Charge Accounts Revenues</b>	<b>849</b>	<b>919</b>	<b>(70)</b>
10	<i>Bond Charge Accounts Expenses</i>			
11	Debt Service on Bonds	876	876	0
12	Administrative and General Expenses	12	12	-
13	<b>Total Bond Charge Accounts Expenses</b>	<b>888</b>	<b>888</b>	<b>0</b>
14	Net Bond Charge Revenues	(38)	31	(70)
15	<b>Ending Aggregate Balance in Bond Charge Accounts</b>	<b>1,861</b>	<b>1,853</b>	<b>8</b>
<b>Target Minimum Bond Charge Account Balances</b>		<b>Target (Millions of Dollars)</b>		
<b>Bond Charge Collection Account:</b> An amount equal to one month's required		74 - 75	74 - 74	
<b>Bond Charge Payment Account:</b> An amount equal to the debt service accrued		298 - 1,047	298 - 1,029	
<b>Debt Service Reserve Account:</b> Established as the maximum annual debt service		882	882	

<sup>1</sup>Numbers may not add due to rounding.

<sup>2</sup>As included herein.

<sup>3</sup>As reflected in the 2018 Determination.

<sup>4</sup>Includes Bundled Customer and Cost Responsibility Surcharge revenues.

## FUTURE ADJUSTMENTS OF REVENUE REQUIREMENT

The Department may continue to revise its revenue requirement for the 2019 Revenue Requirement Period given the potential for refinancing the Department's Power Bonds, receipt of settlements from any legal proceedings involving the Department<sup>2</sup> and any other events that may materially affect the realized or projected financial performance of the Power Charge Accounts or the Bond Charge Accounts. In such event, the Department will inform the Commission of these material changes and will revise its revenue requirement accordingly.

Additionally, the Department has created a framework to guide, in consultation with the CPUC, the future decisions pertaining to the end of the Department of Water Resources' Power Supply Program. The principles guiding the future decisions are outlined in the Bond Indenture which governs how any excess Bond Charges and Power Charges are to be used. Certain guidelines apply to the Power Charge excess amounts and certain guidelines apply to any excess amounts in the Bond Charge Accounts. A summary of these principles is below, followed by additional discussion and specific sections from the Indenture for reference.

Beginning in 2015, amounts in the Power Charge Accounts have been sufficient to pay for the future Power Charge Obligations of the Department, and since that time no further Power Charge deposits have been required to be made into the Power Charge Accounts. Excess amounts in the Power Charge Accounts have from time to time been returned to ratepayers through a negative Power Charge (negative revenue requirement). Through the CPUC allocation of the revenue requirement, these amounts have been applied to satisfy the obligation of the same class of customers as received DWR power. This preserves the underlying premise of the statute and financing structure, that DWR revenues are both derived from the public and applied for the benefit of the public customers, as opposed to the IOUs. In a sense, crediting can be viewed as analogous to a rebate to the customers who initially paid the Power Charges.

For the Power Charge Accounts, Section 508.5 states that *"The Department shall separately notify the Commission in writing each time the Operating Reserve Account Requirement is reduced pursuant to the Indenture. Whenever such reduction in the Operating Reserve Account Requirement occurs, any excess amounts in the Operating Reserve Account ("Excess Amounts") will be used at such time to satisfy any deficiencies existing at such time in the transfers, applications and withdrawals required by paragraphs (a) through (h) of subsection 1 of Section 503.... Unless otherwise agreed by both the Department and the Commission, each acting in its own discretion, any Excess Amounts remaining after application to the uses described in the preceding sentence shall be used, at the direction of the Commission after consultation with the Department, to (i) adjust Department charges or (ii) with the agreement of the Department, reduce debt outstanding under the Indenture, in all instances upon consideration of the interests of the retail customers of the Electrical Corporations and of the Department, and, if applicable, Electric Service Provider retail customers."*

Similarly for the Operating Account, section 503.6 states, *"If and when the Department no longer is responsible for the payment of costs under any Power Supply Contract, all amounts in the Operating Account shall be utilized in the same manner as Excess Amounts are required to be*

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<sup>2</sup> The Department is a participant, along with other California Parties, in the Federal Energy Regulatory Commission Refund Proceedings associated with the energy crisis in California in 2000 and 2001. When the Department receives amounts associated with settlements it will notify the CPUC and support its allocation of any excess amounts that can be returned to ratepayers in the IOU service areas.



*utilized pursuant to subsection 5 of Section 508; provided, however, that amounts required to satisfy a particular contingency shall be retained in the Operating Account only until the contingency has been satisfied or discharged; and provided further, however, that there may be retained in the Operating Account the amount, if any, determined by the Department to be required to pay Bond Related Costs that otherwise would have to be paid from the Bond Charge Payment Account pursuant to paragraph (d) of subsection 1 of Section 506; and provided further, however, that any amounts not required for the purposes described in the preceding provisos shall be utilized in the same manner as Excess Amounts are required to be utilized pursuant to subsection 5 of Section 508.”*

Consistent with the use of such Excess Amounts, the Department has, in consultation with the CPUC, returned these amounts through a negative revenue requirement which is allocated to ratepayers as a credit on their monthly utility bill. Also, consistent with the Indenture, the Department is retaining a contingency amount to pay certain administrative and legal costs associated with the Power Program and the Department’s participation with the California Parties<sup>3</sup>, which are participating in Federal Energy Regulatory Commission (“FERC”) proceedings to recover excess electricity costs incurred by ratepayers since 2001. These FERC proceedings have led to numerous settlement agreements<sup>4</sup> between the California Parties and the responsible energy suppliers.

Similarly, when Bond Charge Accounts are sufficient to pay for the future Bond Charge Obligations of the Department, no further deposits shall be required to be made into the Bond Charge Accounts. Section 507.5 of the Indenture describes *“Whenever the amount in the Debt Service Reserve Account... together with the amount in the Bond Charge Payment Account with respect to Debt Service on Bonds, is sufficient to pay in full all Outstanding Bonds in accordance with their terms (including the maximum amount of principal or applicable sinking fund Redemption Price and interest which could become payable thereon), the funds on deposit in the Debt Service Reserve Account shall be transferred to the Bond Charge Payment Account, and thereupon no further deposits shall be required to be made into the Debt Service Reserve Account. Prior to said transfer, all investments held in the Debt Service Reserve Account shall be liquidated to the extent necessary to provide for the timely payment of principal and interest (or Redemption Price) on Bonds.”*

Using the assumptions and projections supporting this 2019 Determination of Revenue Requirements, the Department projects that it will have sufficient amounts in its Bond Charge Accounts at the end of 2020 to pay all future Bond Related Costs. At that time, no further deposits will be required to be made into the Bond Charge Accounts (Bond Charges will not be imposed on ratepayers). The Department will notify the CPUC, likely in its 2021 Revenue Requirement which is projected to be provided to the CPUC in August of 2020, that it has amounts sufficient to satisfy its future obligations so that the CPUC can direct the IOUs to shut off Bond Charge collections<sup>5</sup>.

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<sup>3</sup> Includes the Governor’s Office, California Attorney General’s Office, CPUC and the IOUs

<sup>4</sup> <https://oag.ca.gov/cfs/energy/money>

<sup>5</sup> DWR could direct the CPUC to set Bond Charges at or near \$0/MWh for a period

## **B. BACKGROUND**

Information on the Act and the Rate Agreement, which have not changed since 2002, is contained in the Department's prior Determinations of Revenue Requirement, copies of which have been incorporated into the administrative record supporting this Proposed Determination. Each Determination of Revenue Requirements builds upon the prior Determinations.

This Proposed Determination of Revenue Requirements is based on requests for information made to each IOU on May 25, 2018, which solicited an update of various modeling assumptions, load information and operational considerations. The information obtained from the IOUs serves as the basis for the Department's analytical and forecasting efforts related to this Proposed 2019 Determination. The Department also considered other important criteria, including, but not limited to, Commission Decisions, Bond Indenture requirements, and information pertaining to electric loads departing IOU service. The resulting data was incorporated into spreadsheet-based analytical models to estimate IOU load volumes subject to Bond Charges and became part of the projections leading to this Proposed Determination.

This Proposed 2019 Determination, including the quantitative results from its analytical models is being provided to interested persons, subject to applicable non-disclosure requirements. Interested parties are advised to submit comments no later than July 26, 2018.

## **C. QUARTERLY SUMMARY OF REVENUE REQUIREMENT FOR THE PERIOD JANUARY 1, 2019 THROUGH DECEMBER 31, 2019**

For 2019, the Department's revenue requirement primarily consists of Bond Related Costs, which are to be satisfied primarily by Bond Charge Revenues.

The Department is not projecting revenues, nor any cost associated with the power purchase contracts. The Department projects to maintain approximately \$24 million in the Power Charge Accounts to account for any contingent liabilities associated with the power purchase contracts and to pay certain revenue requirement costs. The Department, in each revenue requirement determination, determines if any balances in the Operating Account are Excess Amounts. For the 2019 Revenue Requirement period approximately \$11 million is determined to be Excess Amounts and the Department will consult with the CPUC to return such funds to benefit the ratepayers in the IOU service areas. Excess Amounts as defined within the bond indenture and shall be used, at the direction of the Commission after consultation with the Department, to (i) adjust customer charges, or (ii) with the agreement of the Department, reduce debt outstanding under the indenture, in all instances upon consideration of the interests of the retail customers of the IOUs and DWR.

**TABLE C-1**  
**POWER PURCHASE PROGRAM, REVENUE REQUIREMENT**  
**POWER SOURCES AND USES**  
(\$ Millions)

Line	Description	Amounts for Revenue Requirement Period (millions)				
		Q1	Q2	Q3	Q4	Total
Sources						
1	Balances in Accounts					37
2	Power Charge Revenues	-	-	-	-	-
3	Interest Earnings on Power Charge Account Balances	0.1	0.1	0.1	0.1	0.5
4	Total Sources					37
Uses						
5	Return of Excess Cash to Customers	3	3	3	3	11
6	Operating Expenses	0.8	0.8	0.8	0.8	3
7	Power Costs	-	-	-	-	-
8	Ending Balance					24
9	Total Uses					37

During 2019, the Department projects that it will incur the following Bond Related Costs: (a) \$876 million for debt service on the Bonds and (b) \$12 million for administrative and general expenses. Funds to meet this requirement are provided from: (a) \$37 million in interest earned on Bond Charge Account balances and (b) \$812 million from Bond Charge Revenues (including CRS revenues from customers other than customers of the IOUs and DWR). Table C-2 provides a quarterly projection of sources and uses relating to the Bond Charge Accounts for the 2019 Revenue Requirement Period.

**TABLE C-2**  
**BOND CHARGE REVENUE REQUIREMENT**  
**SOURCES AND USES**  
**(\$ Millions)**

Line	Description	Amounts for Revenue Requirement Period (millions)				
		Q1	Q2	Q3	Q4	Total
Sources						
1	Balances in Accounts					1,900
2	Bond Charge Revenues	198	184	222	208	812
3	Interest Earnings on Bond Charge Account Balances	6	14	5	13	37
4	Total Sources					2,749
Uses						
5	Debt Service Payments	-	824	-	52	876
6	Administrative and General Expenses	-	-	-	12	12
7	Ending Balance					1,861
8	Total Uses					2,749

#### **D. ASSUMPTIONS GOVERNING THE DEPARTMENT'S PROJECTION OF REVENUE REQUIREMENT FOR THE 2019 REVENUE REQUIREMENT PERIOD**

The Department based this Determination on a number of assumptions regarding retail customer load and administrative and general expenses, as well as other considerations affecting the Department's revenues and expenses.

##### **ESTIMATED RETAIL LOAD**

The Department obtained the Utilities' most recent retail energy forecasts in June 2018. The Department reviewed the Utilities' underlying forecast assumptions and the forecasts for Direct Access and Community Choice Aggregation ("CCA") in California. These assumptions are discussed in greater detail below.

Table D-1 shows the projected aggregate 2019 load forecast (in gigawatt hours) for the PG&E, SCE and SDG&E service areas combined during 2019. The information represents forecasts at the customer meter.

**TABLE D-1**  
**ESTIMATED ANNUAL ENERGY REQUIREMENTS<sup>6</sup>**

	<b>Bundled Load</b>	<b>Direct Access and CCA</b>	<b>Total Load</b>
<b>Total</b>	110,423	70,846	181,270

## **DIRECT ACCESS**

The Department's direct access estimates are based primarily on data provided by each IOU. Where applicable, the data provided by each IOU was adjusted to account for the expected effects of Senate Bill (SB) 695.

On October 11, 2009, SB 695 was signed into law as an urgency statute. SB 695 allows individual retail nonresidential end-use customers of the IOUs to acquire electric service from non-IOU energy suppliers, up to a customer aggregated, service-area specific kWh limit. Except for this express authorization for increased direct access transactions under SB 695, the previously enacted suspension of direct access remains in effect.

On March 15, 2010, the CPUC issued Decision 10-03-022 authorized increases in the maximum direct access load for each IOU service area, as specified in SB 695. The maximum load of allowable direct access is established with each IOU service territory as the maximum total kWh supplied by all non-IOU energy suppliers to distribution customers of that IOU during any sequential 12-month period between April 1, 1998 and the effective date of the section of the Public Utilities Code modified by SB 695 (October 11, 2009).

The direct access maximum load authorized by the CPUC in Decision 10-03-022 increased the percentage of each IOU's retail load attributable to direct access customers to approximately 14 percent, based on current estimates of total retail load. Regardless of the level of direct access participation within the IOU service areas, direct access customers will still be assessed Bond Charges and DWR's revenue requirement will be recovered in the same manner as has been successfully implemented over the duration of the Power Supply Program. For the 2019 Revenue Requirement period, the total percentage of direct access load, compared to retail load in the three IOU service areas, is projected to be approximately 14 percent.

## **COMMUNITY CHOICE AGGREGATION**

Community Choice Aggregation, authorized by AB 117 in 2002, refers to the ability of a city or county to aggregate and meet the electrical demands of the residents, businesses and municipal users under its jurisdiction from an electricity provider other than an IOU, such as an independent electrical service provider. In AB 117, the CPUC determined that future CCA customers shall pay charges (including DWR charges) intended to keep the bundled customers of the IOUs indifferent to the costs of CCA departing loads bundled service.

CCAs are growing at a more rapid pace than anticipated. When a CCA launches, IOU electricity customers in the designated service areas are automatically enrolled in CCA service and must opt out to continue to be served by the IOU. Once established, a CCA purchases power for its

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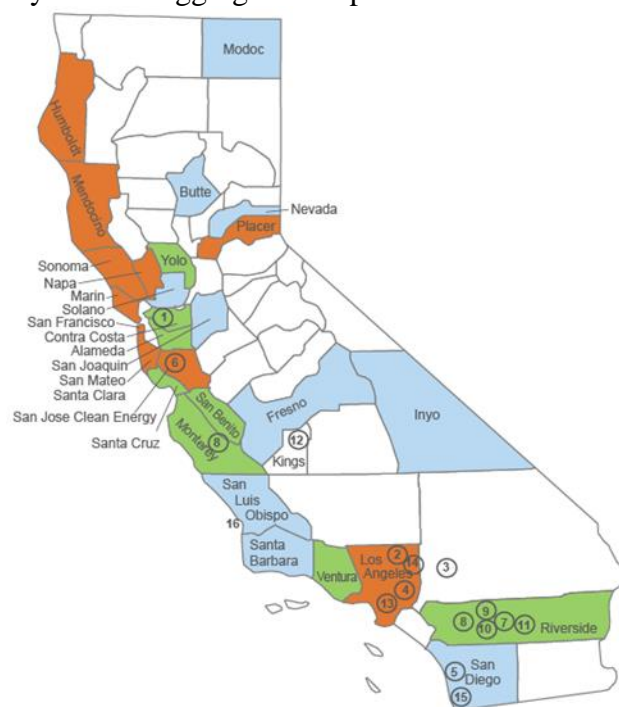
<sup>6</sup> Certain load is exempt from DWR charges. Bond Charges are allocated to non-exempt load.

customers. The CCAs have authority to design its own rate structure, low-income programs, procurement protocols (including renewables) and reliability strategies. While the CCA is responsible for procurement, the IOU still provides other services such as transmission, distribution, metering, billing, collection, and customer service.

Municipalities that join a CAA are required to pass an ordinance, and all customers become customers of the CCA at the time of inception unless they elect to opt out. MCE was the first CCA established in 2010 and now serves over 400,000 customers. Under the California CCA structure, electricity is procured by the CCA primarily from commercial suppliers and delivered through an IOU's existing infrastructure. A CCA can be a group of municipalities forming a joint powers agency or can consist of a single municipality, such as the Lancaster CCA or San Jose CCA. The CCA is governed by representatives of the participating municipalities; has independent rate setting which is not regulated by the state regulatory board; can establish a local integrated resource plan; and can borrow and issue tax-exempt debt. A CCA board can approve budgets.

Pursuant to AB 117, eleven entities are operational and several more entities have filed CCA Implementation Plans with the CPUC. The CPUC has estimated that up to 85% of retail load of IOU's by the mid-2020 will be served by CCAs, up from about 20% in 2018.

A summary of Community Choice Aggregation is provided below:



Operational	2018 Launch (anticipated)
<b>MCE Clean Energy</b> <i>includes Marin and Napa Counties, parts of Contra Costa and Solano Counties (1)</i>	<b>City of Solana Beach (5)</b>
<b>Sonoma Clean Power</b> <i>Includes Mendocino County in mid-2017</i>	<b>San Jose Clean Energy (6)</b>
<b>Lancaster Choice Energy (2)</b>	<b>Clean Power Alliance of Southern CA**</b> <i>Phase 2, formerly Los Angeles Community Energy, includes Ventura County</i>
<b>Clean Power San Francisco</b>	<b>Contra Costa County</b> <i>As part of MCE Clean Energy</i>
<b>Peninsula Clean Energy</b> <i>San Mateo County</i>	<b>Desert Community Energy ** (7)</b> <i>Coachella Valley</i>
<b>Redwood Coast Energy Authority</b> <i>Humboldt County</i>	<b>East Bay Community Energy</b> <i>Alameda County</i>
<b>Silicon Valley Clean Energy</b> <i>Santa Clara County</i>	<b>King City** (8)</b>
<b>Town of Apple Valley (3)</b>	<b>Monterey Bay Community Power</b> <i>Monterey, Santa Cruz and San Benito Counties</i>
<b>Clean Power Alliance of Southern CA</b> <i>Phase 1, formerly Los Angeles Community Energy</i>	<b>Rancho Mirage Energy Authority (9)</b>
<b>Pioneer Community Energy</b> <i>formerly Sierra Valley Energy, Placer County</i>	<b>San Jacinto Power (10)</b>
<b>PRIME (4)</b> <i>Pico Rivera Innovative Municipal Energy</i>	<b>Silicon Valley Clean Energy**</b> <i>Program expansion</i>
	<b>Valley Clean Energy Alliance</b> <i>Yolo County, Cities of Davis and Woodland</i>
	<b>Western Riverside Council of Gov'ts** (11)</b> <i>WRCOG</i>
	<b>**Impacted by Resolution E-4907</b>
Exploring / In Process	
City of Hanford (12)	Modoc County
City of Hermosa Beach (13)	Nevada County
City of Palmdale (14)	City of San Diego (15)
Butte County	San Joaquin County
Fresno County	City of San Luis Obispo (16)
Kings County	Santa Barbara County
	Solano County

Note: Table is sourced from CPUC Energy Division Staff Report on CCA dated February 2018

While CCA could lead to substantial reductions in bundled sales volumes, the CPUC proceeding implementing AB 117 established that the Cost Responsibility Surcharge (“CRS”) would be paid by CCA customers and that the method for calculating the CRS adopted for direct access and municipal departing load customers, as modified by CPUC Decision 06-07-030, would also apply to CCA customers. The Department’s Bond Charge is treated as a non-avoidable charge, along with other IOU charges, that is included on CCA customer bills. The collection of Bond Charges from departing loads is submitted to the Department when customers pay their IOU bill.

## COST RESPONSIBILITY SURCHARGE

In a series of decisions, the CPUC ordered certain classes of direct access, municipal and customer generation departing load, and CCA customers to pay the CRS related to historical stranded power costs and ongoing above-market power costs. Included in the CRS is a DWR Bond Charge component, which is assessed to pay debt service associated with DWR’s bond issuances and a DWR Power Charge component, which pays a pro-rata portion of the above-market costs of the DWR power portfolio. The Bond Charge and the Power Charge components are rates imposed on total non-exempt electricity usage by direct access, departing load, and CCA customers by the CPUC in concert with the establishment of Power Charges and Bond Charges on bundled customers.

CRS revenues reduce the amount of Bond Charges and Power Charges that must be imposed on bundled customers to recover Bond Related Costs and Department Costs. In the aggregate, the payments by direct access load, departing load, CCA load, and from bundled customer load for

the DWR Bond Charge and the DWR Power Charge, flow to DWR to recover the DWR Bond Related Costs and Department Costs.

## **ADMINISTRATIVE AND GENERAL COSTS**

The Department's administrative and general costs of \$15 million consist of \$12 million for appropriated budget expenditures including funds for labor and benefits, pro-rata charges for services provided to the power supply program by other State agencies and \$3 million for consulting services for development and monitoring of the revenue requirement, litigation and dispute resolution support, power contract management, and financial advisory services for managing the outstanding debt portfolio and related reserves. The Department collects its administrative and general costs through Bond Charges<sup>7</sup>.

## **FINANCING RELATED ASSUMPTIONS**

For purposes of calculating the interest earnings on account balances during 2019, the Department assumes a 2.74 percent earnings rate for the Debt Service Reserve Account and a 1.49 percent earnings rate for all other accounts during the 2019 Revenue Requirement Period.

The Department currently has \$3.213 billion of fixed rate bonds outstanding. The projected average interest rate for all fixed rate bonds for the 2019 Revenue Requirement Period is 4.292 percent.

## **ACCOUNTS AND FLOW OF FUNDS UNDER THE BOND INDENTURE**

General information on the Accounts and flow of funds under the Bond Indenture, which has not changed since the bonds were issued in 2002, is contained in the Department's prior Determinations of Revenue Requirement, copies of which have been incorporated into the administrative record supporting this Determination.

Information specific to certain Accounts for this Determination is as follows.

## **OPERATING ACCOUNT**

The Department has covenanted in the Bond Indenture to include in its revenue requirement amounts estimated to be sufficient to cause the amount on deposit in the Operating Account at all times during any calendar month to equal the Minimum Operating Expense Available Balance ("MOEAB"). The Bond Indenture leaves to the Department the determination as to how far into the future this minimum test of sufficiency should be met. Moreover, the covenant concerns the minimum amount required to be projected to be on deposit, and leaves to the Department the determination as to what total reserves are appropriate or required in the fulfillment of its duties under Section 80134 of the Act.

For the purposes of this Determination, the Department has determined that it does not have an MOEAB amount for the 2019 Revenue Requirement Period. The Department has determined that the amount projected to be on deposit in the Operating Account, including the amount therein that acts as a reserve for operating expenses, is just and reasonable, based primarily on maintaining sufficient amounts for any remaining cost obligations of the expired power and natural gas supply

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<sup>7</sup> Beginning in January 2016



portfolio and related costs, as well as the factors discussed in Section F— “Key Uncertainties in the Revenue Requirement Determination.”

## **OPERATING RESERVE ACCOUNT**

The Operating Reserve Account Requirement (“ORAR”) is to be calculated, in respect of each Revenue Requirement Period, as the greater of (a) the largest aggregate amount projected by the Department by which Operating Expenses exceed Power Charge Revenues during any consecutive seven calendar months commencing in such Revenue Requirement Period and (b) 12 percent of the Department’s projected annual Operating Expenses, provided, however, that the projected amount will not be less than the applicable percentage of Operating Expenses for the most recent 12-month period for which reasonably full and complete Operating Expense information is available, adjusted in accordance with the Indenture to the extent the Department no longer is financially responsible for any particular Power Supply Contract. All projections are to be based on such assumptions as the Department deems to be appropriate after consultation with the Commission and taking into account a range of possible future outcomes (i.e., “Stress Case”).

The Department does not have an ORAR for the 2019 Revenue Requirement Period.

## **DEBT SERVICE RESERVE ACCOUNT**

For purposes of calculating the amount of the Debt Service Reserve Requirement in accordance with the Bond Indenture, the Department determines the Maximum Annual Debt Service (“MADS”) for all outstanding Power Supply Revenue Bonds through final bond maturity. The MADS amount must be carried in the Debt Service Reserve Account at all times to satisfy Bond Indenture requirements.

For the 2019 Revenue Requirement Period, the Department has determined the Debt Service Reserve Requirement to be \$882 million. The Department projects to maintain this amount at all times during the 2019 Revenue Requirement Period.

## **E. POWER CONTRACT SETTLEMENT SUMMARY**

The California Parties, which include the Governor’s Office, California Attorney General’s Office, CPUC, the Department, and the IOUs, have participated in Federal Energy Regulatory Commission (“FERC”) proceedings to recover excess electricity costs incurred by ratepayers since 2001. These FERC proceedings have led to several settlement agreements between the California Parties and the responsible energy suppliers. Any future settlement distributions will reduce Department costs and, as a result, decrease the Department’s revenue requirement. Since the 2018 Revenue Requirement was submitted, the Department has received \$16 million in legal settlements from various sources. Further information on legal settlements is available by contacting the CERS office in Sacramento.

## **F. KEY UNCERTAINTIES IN THE REVENUE REQUIREMENT DETERMINATION**

The Department faces a number of uncertainties that may require material changes to its revenue requirement for the 2019 Revenue Requirement Period. Several risk factors are outlined below

and additional information may be found in each of the bond financing Official Statements, which may be obtained from the Treasurer of the State of California.

- 1) Determination of Bond Charges;
  - a. Potential administrative and legal challenges to DWR's revenue requirement; and
  - b. Application and enforcement of the Rate Agreement's Bond Charge rate covenant.
- 2) Collection of Bond Charges:
  - a. Potential rejection of Servicing Arrangements or other disruption of servicing arrangements.
- 3) Potential increases in overall electric rates:
  - a. Changes in general economic conditions;
  - b. Market manipulation; and
  - c. Actions affecting retail rates.
- 4) Potential decrease in DWR customer base:
  - a. Direct Access; and
  - b. Load departing IOU service.

- 5) Uncertainties relating to government action:
  - a. California Emergency Services Act;
  - b. Possible State legislation or action; and
  - c. Possible Federal legislation or action.
- 6) Uncertainties relating to financial industry and markets:
  - a. Effects of bond refunding or similar action;
  - b. Constraints in the flow and availability of credit facilities and capital.

## **G. JUST AND REASONABLE DETERMINATION**

### **PRIOR DETERMINATIONS**

Each new revenue requirement determination builds, to the extent necessary or appropriate, on the various preceding determinations. Successive determinations incorporate the information from each previous determination into the supporting administrative record. Determinations are available for review on the CERS website by interested persons, and the supporting materials are available at the CERS office in Sacramento, subject to applicable non-disclosure requirements.

<b>Determination</b>	<b>Date Issued</b>
2001-2003, including Reexamination and Redetermination for 2001-2002	August 16, 2002
Reconsideration of Just and Reasonableness of 2001 - 2003	August 19, 2004
2003 Supplemental	July 1, 2003
2004	September 18, 2003
2004 Supplemental	April 16, 2004
2005	November 4, 2004
Revised 2005	March 16, 2005
2006	August 3, 2005
Final 2006	October 27, 2005
2007	August 2, 2006
Revised 2007	October 30, 2006
2008	August 22, 2007
Revised 2008	October 31, 2007
Supplemental 2008	February 15, 2008
2009	August 6, 2008
Revised 2009	October 29, 2008
2010	August 6, 2009
Revised 2010	October 27, 2009
2011	August 5, 2010
Revised 2011	October 26, 2010
2012	August 4, 2011
Revised 2012	October 27, 2011
2013	August 2, 2012
Revised 2013	October 15, 2012
2014	August 1, 2013
Revised 2014	October 18, 2013
2015	August 21, 2014
Revised 2015	October 23, 2014
2016	August 6, 2015
2017	August 4, 2016
Revised 2017	October 21, 2016
2018	August 8, 2017

## **THE PROPOSED 2019 DETERMINATION**

### **PUBLIC PROCESS**

Under the terms of the Rate Agreement between the Department and the Commission, and the terms of the Bond Indenture, the Department has agreed to review, determine and revise its Retail Revenue Requirement at least annually.

The Department is issuing its Proposed Determination of Revenue Requirements for the period January 1, 2019 through December 31, 2019 for public review and comment under the Regulations promulgated pursuant to the California Administrative Procedures Act. The Department is providing interested persons with quantitative results from its contract volume and cost analytical models and Financial Model, subject to applicable non-disclosure requirements. Interested parties are advised to submit comments no later than July 26, 2018.

### **JUST AND REASONABLE DETERMINATION**

The Department intends, after completing its assessment of the administrative record, the Act, the Regulations, Bond Indenture requirements and the Rate Agreement – to find this Determination, for the period of January 1, 2019 through December 31, 2019, to be a just and reasonable determination of its 2019 Revenue Requirement.

## **H. ANNOTATED REFERENCE INDEX OF MATERIALS UPON WHICH THE DEPARTMENT RELIED TO MAKE THE DETERMINATION**

<b>Volume</b>	<b>Record Number</b>	<b>Date</b>	<b>Record Title</b>
DWR19pRR	1	12/1/2017	DWR Electric Power Fund Audited Financial Statements, for fiscal year ending 6/30/17
DWR19pRR	2	12/12/2017	CPUC D. 17-11-018 Allocating the Final 2018 Revenue Requirement
DWR19pRR	3	5/25/2018	DWR "Cason" email transmittal of Data Request 1 to PG&E
DWR19pRR	4	5/25/2017	DWR "Cason" email transmittal of Data Request 1 to SCE
DWR19pRR	5	5/25/2017	DWR "Cason" email transmittal of Data Request 1 to SDG&E
DWR19pRR	6	6/14/2017	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: SDG&E Data Responses
DWR19pRR	7	6/14/2017	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: PGE - Data Responses
DWR19pRR	8	6/14/2017	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: SCE - Data Responses
DWR19pRR	9	7/5/2018	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Financial Model (CFMG6V3p-2019 RR 7-6-2018 filing.xlsm) Projection of Revenue Requirement
DWR19pRR	10	7/5/2018	Proposed Determination of Revenue Requirement for 2019, including the Determination, The Notice, and Regulations.
DWR19pRR	11	7/5/2018	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Data files supporting the Proposed Determination of Revenue Requirement for 2019, specific to PG&E
DWR19pRR	12	7/5/2018	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Data files supporting the Proposed Determination of Revenue Requirement for 2019, specific to SCE

DWR19pRR	13	7/5/2018	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Data files supporting the Proposed Determination of Revenue Requirement for 2019, specific to SDG&E
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